

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-14 ISO-00 EURE-00 SP-02 AID-05
EB-08 NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 AGRE-00 FEAE-00 IGA-02 PA-02 PRS-01 L-03
H-02 DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 /110 W
-----074542 101829Z /41

O R 101710Z AUG 77 ZFF 4
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 7071
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
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USECC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 4-10

SUMMARY: WHOLESALE PRICES CONTINUE TO RISE. THE CENTRAL
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GOVERNMENT BORROWING REQUIREMENT IS LOWER THAN ANTICIPATED
FOR THE SECOND SUCCESSIVE MONTH. THE ELIGIBLE LIABILITIES
OF THE BANKING SYSTEM GREW 2.2 PERCENT IN JULY, BUT MARKET
SOURCES INDICATE THAT THIS WAS LESS THAN EXPECTED. FALL-
ING INTEREST RATES SPURRED GILT SALES AND SAW BANKS' BASE
LENDING RATES FALL BY 1/2 PERCENT. THE JUNE LEVEL OF RE-
TAIL SALES AND OF NEW INSTALLMENT CREDIT REMAINED AT

MARCH LEVELS. DEMAND FOR STERLING REMAINED FIRM.
END SUMMARY

1. WHOLESALE PRICES CONTINUED TO SHOW MARKED INCREASES IN JULY. THE PRICE INDEX OF DOMESTIC SALES OF MANUFACTURED PRODUCTS ROSE 1-1/4 PER CENT IN JULY COMPARED WITH 1 PER CENT IN THE PREVIOUS MONTH. THE INDEX HAS INCREASED 21 PER CENT OVER THE LAST TWELVE MONTHS. THE INDEX FOR MATERIALS AND FUELS PURCHASED BY INDUSTRY ROSE BY 1/4 PER CENT FOLLOWING TWO MONTHS OF DECLINE. THE INDEX NOW STANDING 14-1/2 PER CENT ABOVE ITS LEVEL OF TWELVE MONTHS AGO. LOWER FOOD PRICES, CONTRIBUTING TO A 1-1/4 PER CENT DECLINE IN FOOD MANUFACTURERS' COSTS. OFFSET PART OF A 3/4 PER CENT RISE IN NON-FOOD MATERIALS AND FUELS COSTS.

2. STATISTICS OF THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) SHOWED A NET REPAYMENT OF 195 MILLION POUNDS IN JULY AFTER JUNE NET BORROWING OF BUT 71 MILLION POUNDS. THESE LOW LEVELS RESULT IN PART FROM THE SALE OF GOVERNMENT OWNED SHARES OF B.P. STOCK. RECEIPTS FROM WHICH SALES ARE ESTIMATED TO HAVE AMOUNTED TO 270 MILLION POUNDS IN JUNE AND JULY. THE PRESS SPECULATES. DESPITE THE LACK OF INFORMATION ON LOCAL AU-

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SIL-01 AGRE-00 FEAE-00 IGA-02 PA-02 PRS-01 L-03
H-02 DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 /110 W
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O R 101710Z AUG 77 ZFF 4
FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 7072
 TREASURY DEPT WASHDC IMMEDIATE
 INFO AMEMBASSY BONN
 AMEMBASSY BRUSSELS
 AMEMBASSY DUBLIN
 AMEMBASSY PARIS
 AMEMBASSY ROME
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THORITIES AND PUBLIC CORPORATION DEFICITS THAT THE CGBR
 RESULTS INDICATE A PUBLIC SECTOR BORROWING REQUIREMENT
 SUBSTANTIALLY BELOW THE 8.7 BILLION POUND TARGET WHICH
 THE U.K. SET IN ITS LETTER OF INTENT TO THE IMF

TO SUMMARIZE THE MAIN ACCOUNTS ASSOCIATED WITH THE
 CGBR

	NATIONAL LOANS FUNDS	DEFICIT FROM	CGBR
	NET LENDING	CONSOLIDATED	
	FUND		
APRIL	500	125	470

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MAY	192	973	1223
JUNE	.98	460	71
JULY	64	-208	-195

3. THE ELIGIBLE LIABILITIES (EL) OF THE BANKING SYSTEM
 GREW 2.2 PER CENT IN THE BANKING MONTH ENDED JULY 20,
 FOLLOWING 1.3 PER CENT GROWTH IN THE MONTH ENDED JUNE
 15. THE INTEREST BEARING COMPONENT OF THE EL'S (IBEL)
 INCREASED 1.8 PER CENT IN JULY FOLLOWING A 1.2 PER CENT
 INCREASE IN JUNE. THESE INCREASES APPEAR LARGE. AL-
 THOUGH THE RATE OF GROWTH OF M3 THE MOST CAREFULLY
 WATCHED OF THE MONETARY AGGREGATES MAY NOT EQUAL THAT OF
 EL'S. AS SEASONAL ADJUSTMENT AND THE EXCLUSION OF
 FOREIGN DEPOSITORS FROM THE M3 SERIES IS EXPECTED TO TEM-
 PER THE JULY MOVEMENT IN THAT SERIES. THE GROWTH IN
 IBELS IS STILL INSUFFICIENT GENERALLY TO PENALIZE BANKS
 UNDER THE SUPPLEMENTARY DEPOSIT SCHEME. IN FACT. THE
 NUMBER OF BANKS WITH SUPPLEMENTARY SPECIAL DEPOSITS AT
 THE BANK OF ENGLAND FELL FROM FIVE TO FOUR OVER THE JULY
 BANKING MONTH. THE ORESS SPECULATES THAT ALL THINGS
 CONSIDERED, M3 GROWTH WILL BE ON TARGET.

SOME OF THE MAJOR BANKING STATISTICS RELEASED DEVELOPED AS FOLLOWS:

(IN MILLIONS OF POUNDS)	JUNE 15	JULY 20
ELIGIBLE LIABILITIES	36276	37087
OF WHICH INTEREST BEARING	24218	24663
RESERVE ASSETS	5076	5192
OF WHICH		
MONEY AT CALL IN THE DISCOUNT MARKET	1867	1842
UK AND NORTHERN IRELAND		
TREASURY BILLS	L410	1377
BALANCES WITH THE BANK OF	305	384

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ENGLAND
BRITISH GOV'T STOCKS UP TO
L2 MONTHS 560 618
(PER CENT)
RESERVE RATIOS 14.0 14.0

4. THE FINANCIAL MARKETS HAVE BEEN QUITE ACTIVE THIS WEEK, INTEREST RATES DECLINING SHARPLY IN MOST MATURITIES. THE MINIMUM LENDING RATE FELL BY 1/2 PER CENT AT LAST FRIDAY'S TREASURY BILL AUCTION AND MARKET SOURCES EXPECT ANOTHER FALL THIS FRIDAY. THROUGHOUT THE WEEK THE BANK OF ENGLAND GAVE THE DISCOUNT MARKET A GREAT DEAL OF ASSISTANCE TO OFFSET THE SHORT TERM LIQUIDITY DRAIN OF THE AUGUST 4 APPLICATION FOR THE EXCHEQUER 9-1/2 PER CENT 1981 AND THE FINAL 512 MILLION POUND INSTALLMENT DUE AUGUST 8 ON THE TREASURY 11-3/4 PER CENT 1991. ON AUGUST 4. IN PARTICULAR, THE BANK LENT OVER 250 POUNDS AT A RATE BELOW MLR TO OFFSET THE UNEXPECTEDLY HEAVY APPLICATION.

5. THE EXCHEQUER 9-1/2 PER CENT 1981 HAD A VERY SHORT LIFE AS A TAP STOCK. GILT PRICES INCREASED SUDDENLY ON THE APPLICATION DAY, MAKING THE PRE-SET YIELD OF THE NEW ISSUE VERY ATTRACTIVE, AND MARKET SOURCES ESTIMATE THAT INCREASED DEMAND TOOK OVER HALF OF THE 800 MILLION POUND ISSUE THAT DAY. EARLY MONDAY MORNING THE GILT WAS DECLARED EXHAUSTED.

6. ONE BILLION POUNDS OF A NEW QILT. THE 12-1/2 PER CENT 1994. WILL BE OFFERED THIS THURSDAY. ONLY 15 POUNDS OF THE 96 POUND ISSUE PRICE WILL BE DUE AT APPLICATION' AN ADDITIONAL 40 POUNDS BEING PAID ON SEPTEMBER 6, AND 41 POUNDS ON SEPTEMBER 26. THE REDEMPTION YIELD OF 13.093 PER CENT HAS BECOME VERY ATTRACTIVE AS GILT PRICES HAVE CONTINUED TO RISE OVER THE WEEK. AND MARKET SOURCES ANTICIPATE A HEAVY SUBSCRIPTION

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7. GILT PRICES ROSE THROUGH THE WEEK. BRINGING LONG TERM
RATES DOWN AS MUCH AS 1/3 PER CENT MARKET SOURCES BE.
LIEVE THE MARKET WILL REMAIN STRONG THROUGH THE REST OF
THIS MONTH AND INTO SEPTEMBER AS BACKGROUND TO THIS
STRENGTH THEY POINT TO BANKING STATISTICS (SEE PARA 3)

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SIL-01 AGRE-00 FEAE-00 IGA-02 PA-02 PRS-01 L-03
H-02 DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 /110 W
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O R 101710Z AUG 77 ZFF 4
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 7073
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
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WHICH INDICATE THAT M3 IS WITHIN THE GOVERNMENT'S TARGET
(9-1/3 PER CENT) AND WITHIN THE GOVERNMENT'S CONTROL,

AS WELL AS TO THE GOOD TONE OF STERLING WHICH MAKES FINANCIAL INVESTMENT IN THE U.K. MORE ATTRACTIVE THAN IN THE PAST.

8. THE MAJOR CLEARING BANKS LOWERED THEIR BASE LENDING RATE FROM 8-1/2 PER CENT TO 8 PER CENT ON MONDAY, FOLLOWING LAST FRIDAY'S DECLINE IN MLR. THIS IS THE EIGHTH REDUCTION SINCE THE BEGINNING OF THIS YEAR WHEN BASE UNCLASSIFIED

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LENDING RATES STOOD AT 14 PER CENT. DEPOSIT RATES WILL, HOWEVER, NOT BE CUT AS THE CLEARING BANKS TRY TO PROTECT THEIR DEPOSIT LEVELS FROM SHIFTS INTO THE NATIONAL SAVINGS AND THE BUILDING SOCIETIES.

9. NEW INSTALLMENT CREDIT ADVANCED BY FINANCE HOUSES AND RETAILERS AMOUNTED TO 350 MILLION POUNDS IN JUNE COMPARED WITH 359 MILLION POUNDS IN MAY. THE MONTHLY LEVEL OF NEW INSTALLMENT CREDIT HAS NOT CHANGED MATERIALLY FROM THAT ATTAINED IN MARCH.

10. THE STATISTICS FOR JUNE'S RETAIL SALES VOLUME WERE REVISED DOWNWARD FROM 104.5 TO 103.8. RETAIL SALES VOLUME IS THUS VIRTUALLY UNCHANGED FROM ITS LEVEL IN MARCH AND HAS FALLEN 3.3 PER CENT IN THE TWELVE MONTHS THROUGH JUNE 1977

11. DEMAND FOR STERLING WAS FIRM THROUGHOUT THE WEEK. AND MARKET SOURCES SAW LITTLE INTERVENTION BY THE BANK OF ENGLAND ON EITHER SIDE OF THE MARKET. FALLING U.K. INTEREST RATES NARROWED THE SPREAD BETWEEN EURODOLLAR AND DOMESTIC INTEREST RATES AND, IN CONJUNCTION WITH ANTICIPATED RISES IN U.S. RATES, ARE WIDELY EXPECTED TO CONTINUE TO NARROW THE SPREAD. THIS NARROWING HAS NOT APPARENTLY HAD AN ADVERSE EFFECT ON STERLING TO THIS POINT, NOR DO MARKET SOURCES EXPECT IT TO HAVE

12. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE			
DATE	EXCHANGE RATE (\$)	(DEC 1971 EQUALS 100)	GOLD (\$)
8/3	1.7388	61.7	146-3/8
8/4	1.7396	61.8	146-5/8

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8/5	1.7388	61.7	145-5/8
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8/8 1.7375 61.8 145-7/8
8/9 1.7384 61.8 146-5/8
CHANGE 8/2-8/9 UP 0.0007 UP 0.1 DOWN 1

13. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS
8/3	0.27	0.98
8/4	0.23	0.85
8/5	0 20	0.82
8/8	0 28	0.90
8/9	0.25	0 85

CHANGE 8/2-8/9 WIDER 0.02 NAR. 0.02
(ALL FIGURES IN CENTS)

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H-02 DODE-00 NSCE-00 SSO-00 USIE-00 INRE-00 /110 W
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O R 101710Z AUG 77 ZFF 4
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TO SECSTATE WASHDC IMMEDIATE 7074
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
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L4. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/3	5-5/8	6-1/8	6-3/8
8/4	5-7/8	6-1/8	6-1/4
8/5	6-1/4	6-1/4	6-3/8
8/8	6	6-7/16	6-1/2
8/9	6	6-1/8	6-3/8

CHANGE 8/2-8/9 UP 1/8 DOWN 1/8 UNCHANGED

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15. THREE-MONTH LONDON INTERBANK . EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
8/3	1-13/32
8/4	1-3/8
8/5	15/16
8/8	25/32
8/9	27/32

CHANGE 8/2-8/9 NARROWED 3/8

16. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/3	7-3/8	7-1/2	7-23/32
8/4	7-5/16	7-11/32	7-5/8
8/5	7-1/8	7-3/64	7-1/2
8/8	7-3/16	7	7-3/8
8/9	7-1/16	7	7-5/16

CHANGE 8/2-8/9 DOWN 1/16 DOWN 7/16 DOWN 7/16

17. THE MINIMUM LENDING RATE FELL 1/2 PER CENT TO 7-1/2 PERCENT AFTER FRIDAY'S TREASURY BILL AUCTION. THE AVERAGE TREASURY BILL RATE FELL 0.4902 PER CENT TO 6.8106 PER CENT AT THE AUCTION AS THE 400 MILLION POUNDS IN BILLS TENDERED ATTRACTED 1027 MILLION POUNDS IN BIDS. THIS WEEK 300 MILLION POUNDS WILL BE OFFERED AS 350 MILLION POUNDS MATURE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MANUFACTURES, PRICES, ECONOMIC TRENDS, FOODS
Control Number: n/a
Copy: SINGLE
Sent Date: 10-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Executive Order: N/A
Errors: N/A
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From: LONDON USOECD
Handling Restrictions: n/a
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Litigation History:
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Office: ACTION EUR
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Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Reference: n/a
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Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
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SAS ID: 1648555
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 4-10 SUMMARY: WHOLESAL PRICES CONTINUE TO RISE. THE CENTRAL UNCLASSIFIED
TAGS: ECON, UK
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/3ac8305d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
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22 May 2009
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